

January 13, 1941.

Dear Henry:

At our conference on December 4 it was agreed that there should be full cooperation between the Treasury and the Federal Reserve Board in all matters of mutual interest. Since then two matters have arisen which sharply raise the question of how that cooperation can be brought about. The first relates to banking legislation. Certainly it would seem that banking legislation sponsored or supported by either agency affecting the other would come within the scope of what I believed to be our understanding.

In the Wall Street Journal of January 3 there was an article, under a Washington dateline, stating that "the Treasury Department is preparing a new bank holding company bill", that "much of the preliminary work on the bank holding company legislation has been done", and that "there have been conferences between Secretary Morgenthau and Senator Glass." The article also stated that "Secretary Morgenthau is represented as favoring legislation which would force a break-up of existing bank holding company systems", and that "yesterday Comptroller of the Currency Preston Delano and Treasury General Counsel Edward Foley discussed the holding company legislation with Senator Glass ..."

Assuming that this report is correct, it is the first knowledge that we had that the Treasury was seeking new legislation at this time dealing with this subject. As I think you are aware, the Board is specifically charged under the law with the various legal responsibilities applying to bank holding companies.

We are advised that the initiation of this bill did not come from Senator Glass, but from yourself. We had recognized the need for a change in existing legislation and had prepared legislation to deal with it, and had it been thought desirable to have banking legislation at this time, this subject certainly should be included. However, it was our understanding that the Administration desired to avoid piecemeal legislation and, accordingly, we have not undertaken to push this particular measure, feeling that it was far preferable that the subject be taken up and dealt with as part of the program contemplated by the proposed hearings under the Wagner Resolution.

The second instance, which I want to mention to you in all frankness, relates to the special report of the Federal Reserve System which was submitted to Congress after you had had an opportunity to consider it for a period of some ten days. We, of course, did not ask you to assume responsibility either for objecting to or approving of the report. However, had you desired to do so, you could have assumed that responsibility and either approved it or made known the objections you had to it. You advised me that you considered the report our responsibility and that you reserved the right later on either to approve or disapprove all or any portion of it.

Immediately after our conference in your office on December 30 you stated at your press conference that we had been discussing Federal Reserve matters and that I would have an important statement to make. As a result, even before I had had an opportunity to get back to my desk, my office was besieged by newspaper inquiries. I was obliged to tell the press that I had no statement to make that night and did not know whether I would have any statement to make. I was especially embarrassed because I was acting in this matter not only for the Board but for the Federal Advisory Council and the presidents of the Reserve Banks.

I felt, as did Harry White and Lauchlin Currie, that the President should be advised that a statement was to be issued, though I did not want to take his time to discuss the many technical matters involved, unless he wanted me to do so. It was too late that night, but the next morning I took a copy of the report over to Mr. Early personally, together with a brief explanatory letter for the President. Mr. Early advised me that afternoon that he had taken it to the President and that the President had no objection to our releasing the report. Mr. Early felt that we should give it out without further delay, inasmuch as your statement that an important "move" was to be made was in all of the papers of that morning. Mr. Early advised making the report for release in afternoon papers of the following day, that is, Wednesday afternoon.

Accordingly, I called a press conference in my office for five o'clock on the evening of December 31, and I was at great pains to avoid either committing the President or yourself to the report or, on the other hand, to give any indication that there might or might not be opposition to it. As you know, this was a compromise report which prevented the Advisory Council from issuing one that they had previously adopted which was highly critical of Administration policy.

At his press conference on the day following publication of the report, Mr. Early did his utmost to correct erroneous impressions given by some of the headlines indicating that there might be an Administration fight on the program. He stated that the report had been issued with the full knowledge of the President, that the President regarded it as "something for Congress to study", and that it was being studied meanwhile at the White House and at the Treasury. He stated further, "Despite the headlines I don't think you are going to find any fight between the Treasury, the Board and the White House." Mr. Early's statement seemed to me to leave the matter in correct focus, committing neither the White House nor the Treasury to the report, but indicating that it would be fairly considered and discussed before the appropriate committees of Congress.

On Thursday, January 9, however, at your press conference you went out of your way, as it seemed to me, to belittle the report and to take pot-shots at me personally. Subsequently the press has uniformly interpreted this to mean that you propose to fight the program, assuming that Congress takes it "seriously".

Now, Henry, in all fairness, if this is playing ball, then I just don't understand the rules of the game. All of us have naturally been greatly disturbed by your attitude as it was volunteered at this press conference. Strongly tempted though I was to make public a statement in self-defense, I have refrained from doing so, though I think the position attributed to you at this press conference is highly vulnerable.

I am equally convinced that if there are parts of this program to which you have serious objection -- though you did not state objections when you had an opportunity to do so in our discussions -- a basis of compromise can be found which will be satisfactory to both of us and will enable us to present a united front instead of the division that is now proclaimed to exist between us. I earnestly wish to get together and I do not want to be forced to debate a matter as important as this publicly or through press conferences. Accordingly, I am writing this personally to you in an effort to bring about that cooperation which you have said you desired, but which certainly has not brought satisfactory results in either of these two instances.

Sincerely yours,

Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington, D. C.